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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

2 February 1983

MEMORANDUM FOR: Recipients of China: Quarterly Economic Report
FROM : Chief, China Division, OEA
SUBJECT : China: Quarterly Economic Report

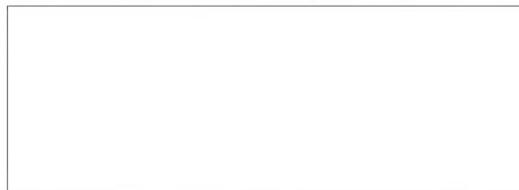
1. The attached memorandum provides a quick fix on current trends and prospects for China's economy. The tables provide data on key economic indicators and the graphs are for convenient reference and use in briefings.
2. We welcome suggestions and improvements.



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Attachment:
As stated

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CHINA: QUARTERLY ECONOMIC REPORT

Fourth Quarter: Rebound in Light Industry,
Trade Restrictions on U.S. Goods

Summary

Led by light industry, industrial production grew moderately in the fourth quarter of 1982. Agriculture had another good year, with sharp gains and record crops for almost all major commodities. Fourth quarter trade continued largely unchanged. The outlook for early 1983 is for moderate industrial growth, perhaps threatened by further deterioration in the energy situation. New restrictions on U.S. exports to China following the collapse of the textile negotiations introduce uncertainties to U.S. - China trade relations.

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Industry

Industrial production rose moderately in the fourth quarter, based almost entirely on a vigorous rebound in light industry where production reached record levels. Growth continued to slow in heavy industry; still, output there was only slightly below the second-quarter peak.

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The slowdown in heavy industry is partly due to Beijing's jawboning of lower-level managers and partly a reflection of energy shortages. Both factors have operated all year to cool the boom that began in late 1981. Beijing had planned on slow growth (one percent) in heavy industry last year to focus on improving productivity and reducing energy and raw material

This memorandum was prepared by [redacted]
[redacted] the Domestic Policy Branch of the Office of East
Asian Analysis, Deputy Directorate of Intelligence. Questions
and comments are welcome [redacted]

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consumption. But despite the low target, production rose by 9.3 percent in 1982, with most of the gain coming early in the year. [redacted]

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Light industry ended 1982 on the upswing, with production in the fourth quarter well above the rest of the year. Still, production for the year showed the smallest increase in over 5 years: 5.6 percent, considerably below the targeted 7 to 9 percent. Continuing problems with slow sales and excessive inventory buildup of some goods have led Beijing to make some price adjustments; synthetic fabric prices, for example, recently were cut by 20 to 30 percent. [redacted]

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Energy production dropped in the fourth quarter, as coal failed to show its usual year-end increase. However, output was up by 3.8 percent for 1982, based on increases early in the year when it was needed to support the rapid growth in heavy industry. [redacted]

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Agriculture

Record output was recorded for most major crops, including grain, cotton, oilseeds and sugar cane. Meat and aquatic products production also set new records, but showed smaller increases. Total agricultural production, including commune and brigade industry, increased by 7 percent in 1982. [redacted]

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Encouraged by the successes of its new agricultural policies, Beijing has begun to abolish the communes, which will be replaced by village cooperatives. The communes, which combine both governmental and economic functions, are viewed as too large and inefficient to play a useful role under Beijing's increasingly market-oriented agrarian policies, [redacted]

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Foreign Trade

Exports probably remained flat in the fourth quarter, at about \$5.5 billion; normally they show a seasonal jump. Imports, although unchanged from the \$4 billion registered in the third quarter, remained about 7 percent below year-earlier levels. [redacted]

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For 1982 as a whole, China turned in a record \$5 billion trade surplus, pushing its foreign exchange holdings to \$10 billion. Exports showed only a 5-percent gain during the year, the smallest increase in 7 years. Depressed world demand slowed textile exports while sagging international prices and tight domestic supplies cut into oil revenues. Imports declined for the second consecutive year, to about \$17 billion. Increased imports of grain, paper products, and logs were offset by falling purchases of cotton, synthetic fiber, and machinery. [redacted]

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Elsewhere in the Economy

Economic activity in most other sectors appears to have slackened in the fourth quarter.

- o Transportation: Beijing's end-of-year statement omitted any precise reference to gains, suggesting that the slowdown apparent in data for October continued in November-December.
- o Capital construction: According to Beijing's preliminary estimate, it tapered off during the fourth quarter, finishing the year 18.5 percent above 1981. At the end of 10 months, capital construction was running 24.5 percent ahead of the previous year.
- o Housing construction: It too probably slid. Data for the first 10 months show a tapering off in September and October. Completions, however, rose somewhat.
- o Retail sales of consumer goods: Purchases of consumer goods may also have turned down. The gain in October was only 6.2 percent (over October 1981), considerably below the 8.4 percent gain for the first 10 months as a whole. Savings meanwhile have continued to grow sharply. At the end of October, urban and rural savings deposits stood 22 percent above end-of-year 1981. [redacted]

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Performance Outlook

We expect both light and heavy industry to show moderate gains during the first quarter of 1983, discounting the usual seasonal variations. Energy shortages will continue to constrain growth. It is too early to tell if the fourth quarter drop in energy production -- as shown in the seasonally adjusted data -- reflects the beginning of further deterioration in the energy situation; but any additional decrease in energy output poses serious threats to industrial growth. [redacted]

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Agricultural prospects are favorable. Winter grain acreage is up this year, and overwintering crops are off to a good start. The abolition of communes is unlikely to have much effect on agricultural production in the short run. Agricultural responsibility systems -- under which individuals or groups exercise greater control over production -- are already in place in most areas. [redacted]

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In foreign trade, Chinese exports will probably continue to languish in the first quarter as a result of the world-wide recession. Imports should begin to recover, although they will remain well below the level of exports. Industrial raw materials will probably be the big gainers, with steel purchases set to increase sharply. Beijing will probably also intensify its efforts to acquire Western equipment and technology. [redacted]

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Despite an expected pickup in total imports, we believe first-quarter purchases from the U.S. will be below year-earlier levels. Adequate Chinese domestic supplies and high U.S. prices have already cut into imports of U.S. agricultural goods and synthetic fiber. Strains in the bilateral relationship may hamper future U.S. sales. Following the imposition of textile controls by the U.S., Beijing recently placed a moratorium on purchases of U.S. cotton, soybeans, and synthetic fiber. Beijing has also threatened to cut back purchases of U.S. grain and logs if the textile issue is not resolved. [redacted]

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	Quarters					Annual		
	1981		1982			1982	1983	
	IV	I	II	III	IV	Chinese Plan	Chinese Estimate	Plan
<u>Production (Bil 1980 Yuan, except where noted; numbers in parentheses are percent change from previous year)</u>								
Total Industry	141.03 (12.0)	129.16 (11.5)	143.77 (8.9)	136.24 (5.7)	146.83 (4.1)	538.5 (4.0)	556.0 (7.4)	578.24 (4.0)
Heavy Industry	66.01 (4.5)	62.07 (8.5)	72.09 (10.4)	69.51 (10.4)	71.23 (7.9)	254.0 (1.0)	274.9 (9.3)	283.1 (3.0)
Light Industry	74.4 (20.4)	67.25 (14.6)	71.52 (7.3)	66.73 (0.0)	75.6 (1.6)	284.9 (7.0)	281.1 (5.6)	295.2 (5.0)
Agricultural Production						240.4 (4.0)	257.2 (7.0)	267.5 (4.0)
Grain Production (Million tons)						333.5 (2.6)	344.3 (5.9)	342.5 (-0.5)
Energy Production (Million tons coal equivalent)	173.5 (11.6)	154.16 (10.0)	168.1 (8.0)	164.6 (5.6)	164.4 (-5.2)	627.1 (0.3)	651.3 (4.2)	664.1 (2.0)
Oil Production (Million tons)	25.4 (-3.2)	25.34 (1.4)	26.06 (3.5)	25.44 (0.6)	25.16 (-0.9)	100.0 (-1.2)	101.7 (0.5)	100.0 (-1.7)
<u>Seasonally Adjusted Production Data (Numbers in parentheses are percent change over previous quarter, at annual rate)</u>								
Industrial Production	134.9 (10.5)	138.0 (9.5)	138.3 (0.8)	139.0 (2.1)	140.5 (4.4)			
Heavy Industry	65.0 (13.7)	67.0 (12.6)	68.2 (7.8)	69.5 (7.6)	70.1 (3.9)			
Light Industry	69.8 (3.1)	71.0 (7.4)	70.0 (-5.9)	69.2 (-4.5)	70.9 (10.8)			
Energy Production (Million tons coal equivalent)	164.3 (20.4)	164.3 (0.0)	166.1 (4.3)	165.4 (-1.6)	156.1 (-20.8)			
Oil Production (Million tons)	25.3 (3.3)	25.7 (6.9)	26.1 (5.9)	25.2 (-12.4)	25.0 (-2.9)			

(Percent change from previous year in parentheses)

	Quarters					Annual		
	1981 III	1981 IV	1982 I	1982 II	1982 III	1980	1981	1982
<u>International Trade and Finance</u>	<u>(Mil \$US, f.o.b., not seasonally adjusted, except where noted)</u>							
Total Exports	5443.5	5928.0	5444.5	5360.8		18910.2	21394.2	23326
	(11.5)	(7.7)	(13.6)	(2.5)		(40.2)	(13.1)	(9.0)
Total Imports	4004.9	4302.2	4055.0	4035.3		19339.2	18212.1	17842
	(-19.7)	(-28.8)	(-26.3)	(-8.4)		(34.0)	(-5.8)	(-2.0)
Trade Balance	1438.6	1625.8	1389.5	1325.5		-429.0	3182.1	5484
Oil and Petroleum Products Exports	1190.7	1245.0	1205.9	1048.7		4154.5	4498.6	4599
	(7.8)	(-2.6)	(21.1)	(-1.7)		(84.8)	(8.3)	(2.2)
Grain Imports (Million tons)	3.291	3.357	3.209	4.342	3.930	13.673	13.204	14.5
Liquid Assets*	(-21.1)	(-12.5)	(-4.6)	(41.2)	(19.4)	(26.0)	(-3.4)	(9.8)
Liquid Liabilities*	3936	5048	5460	7287	9444		5048	8000
	(1.4)	(114.4)	(129.8)	(90.7)	(139.9)			
Exchange Rate (yuan/dollar)	5947	4759	3719	3697	3724		4759	2500
	(10.5)	(-16.0)	(-41.3)	(-38.3)	(-37.4)			
	1.7675	1.7455	1.8675	1.9310		1.5303	1.7455	
<u>Japan - China Trade</u>								
Exports to Japan	1296.8	1491.6	1299.9	1250.3	1250.6	4139.5	5031.9	
	(21.0)	(25.3)	(24.8)	(4.0)	(-3.5)	(48.3)	(21.6)	
Petroleum and Products	703.1	770.6	716.1	572.0	704	2159.4	2607.7	
	(20.2)	(20.9)	(30.0)	(-1.9)	(0.1)	(104.6)	(20.8)	
Imports from Japan	1152.4	1147.4	848.6	888.2	839.7	5109.6	5076.1	
	(-5.0)	(-37.5)	(-40.7)	(-34.0)	(-27.1)	(38.8)	(-0.7)	
Trade Balance with Japan	144.5	344.1	451.3	362.1	410.9	-969.9	-44.2	

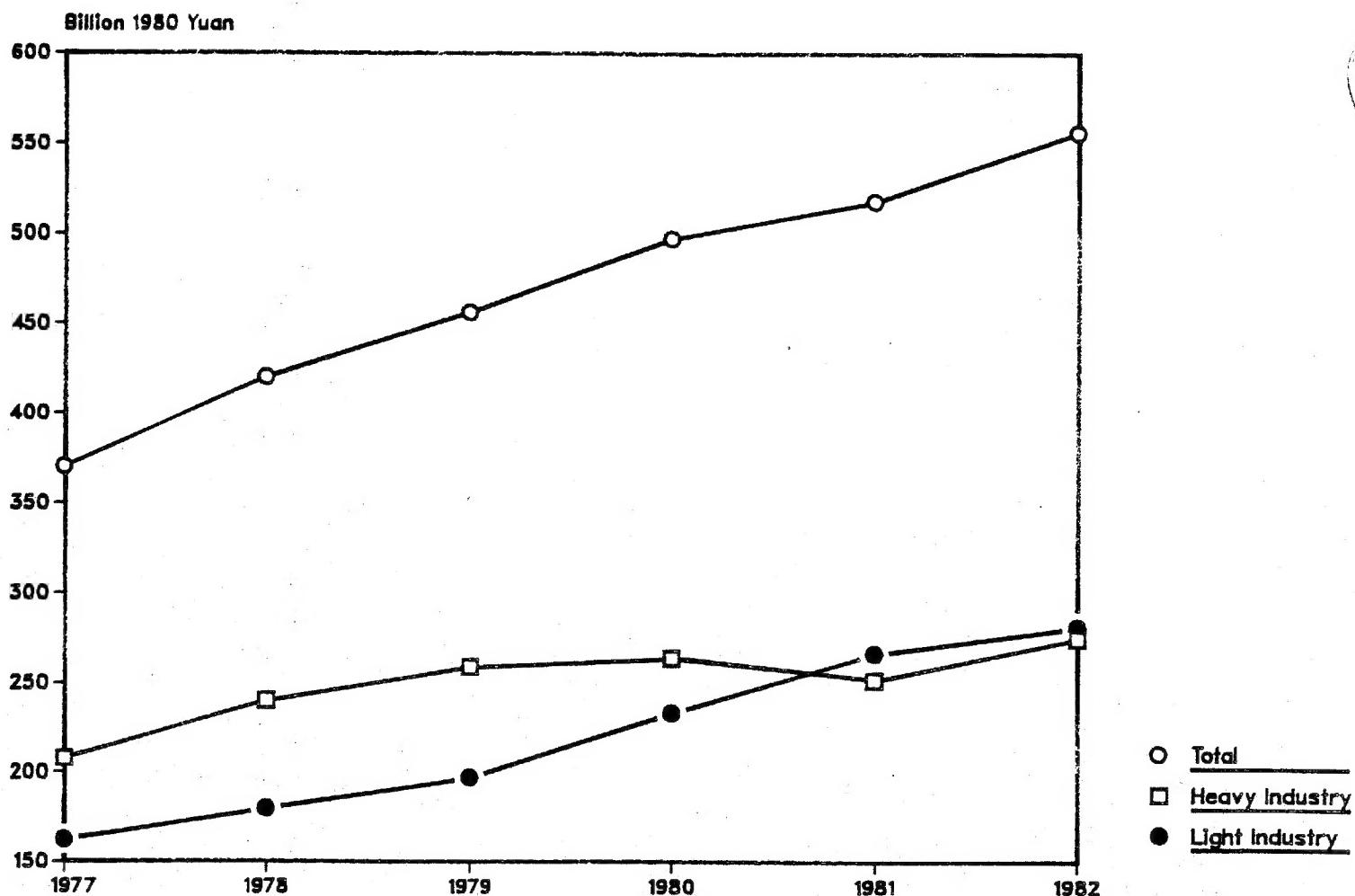
*Liquid assets are almost all foreign exchange reserves; liquid liabilities are mainly national bank liabilities. In addition, the Chinese have some SDRs and IMF liabilities and 12.7 million ounces of gold.

(Percent change from previous year in parentheses)

	Quarters					Annual		
	1981 III	1981 IV	1982 I	1982 II	1982 III	1980	1981	1982
<u>U.S. - China Trade</u>	<u>(Mil \$US, f.o.b., not seasonally adjusted, except where noted)</u>							
Exports to U.S.	533.8 (84.3)	482.8 (54.2)	553.6 (47.4)	487.4 (-0.4)	693.7 (30.0)	1053.6 (78.2)	1892.3 (79.6)	
Textiles and Clothing	178.7 (54.7)	171.4 (66.2)	205.7 (43.3)	175.2 (44.0)		359.6 (78.5)	615.4 (58.4)	
Petroleum and Products	120.9 (442.2)	93.7 (160.3)	114.3 (412.6)	95.6 (69.2)	214.6 (77.5)	134.7 (39.6)	293.4 (117.8)	
Imports from U.S.	818.0 (-24.7)	922.2 (-21.8)	905.2 (-23.5)	801.8 (18.1)	686.5 (-16.1)	3754.4 (117.8)	3602.7 (-4.0)	
Grain (million tons)	2,423 (-21.3)	2,355 (-20.3)	1,968 (0.3)	2,564 (90.8)	2,406 (-0.7)	8,037 (101.2)	8,084 (0.6)	
Textile Fibers	185.0 (-3.5)	256.8 (-2.5)	238.1 (-47.2)	97.3 (-46.7)		1028.8 (127.0)	1075.0 (4.5)	
Trade Balance with U.S.	-284.2	-439.4	-351.6	-314.4	(7.2)	-2696.5	-1727.8	
<u>Aggregate Indicators</u>								
Population (mil on July 1)					981 (1.3)	993 (1.2)	1008 (1.5)	
Gross National Product (Bil 1981 \$US)					320.6 (6.9)	330.2 (3.0)	350.0 (6.0)	
GNP per capita (1981 \$US)					326.8 (5.5)	332.5 (1.7)	347.2 (4.4)	
State Budget (Bil Yuan):								
Revenues					108.5 (-1.6)	109.0 (0.5)	110.7 (1.6)	
Expenditures					121.3 (-10.6)	111.5 (-8.1)	113.7 (2.0)	
Deficit (-) or Surplus (+)					(-12.8)	-2.5	-3.0	

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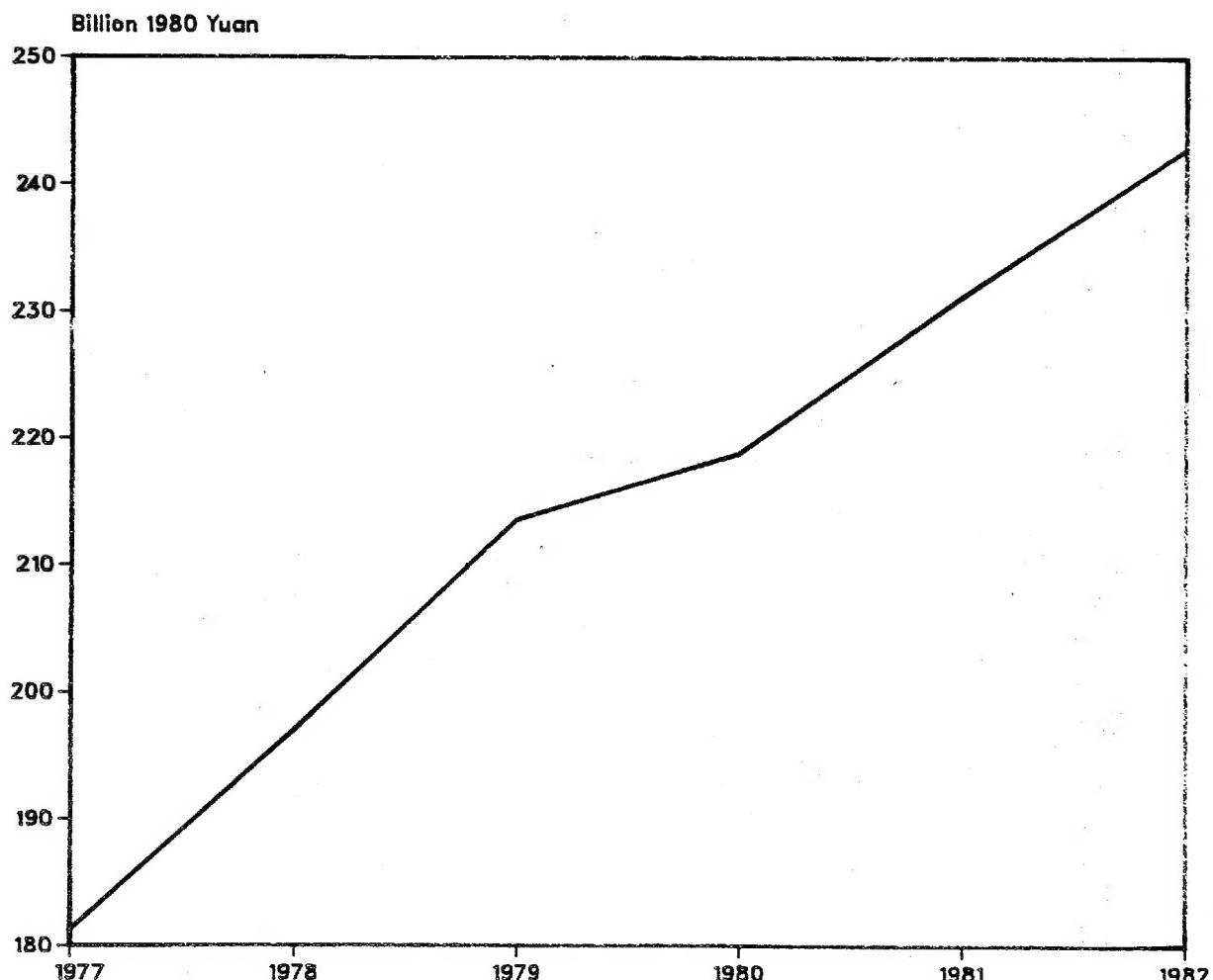
Chinese Industrial Production



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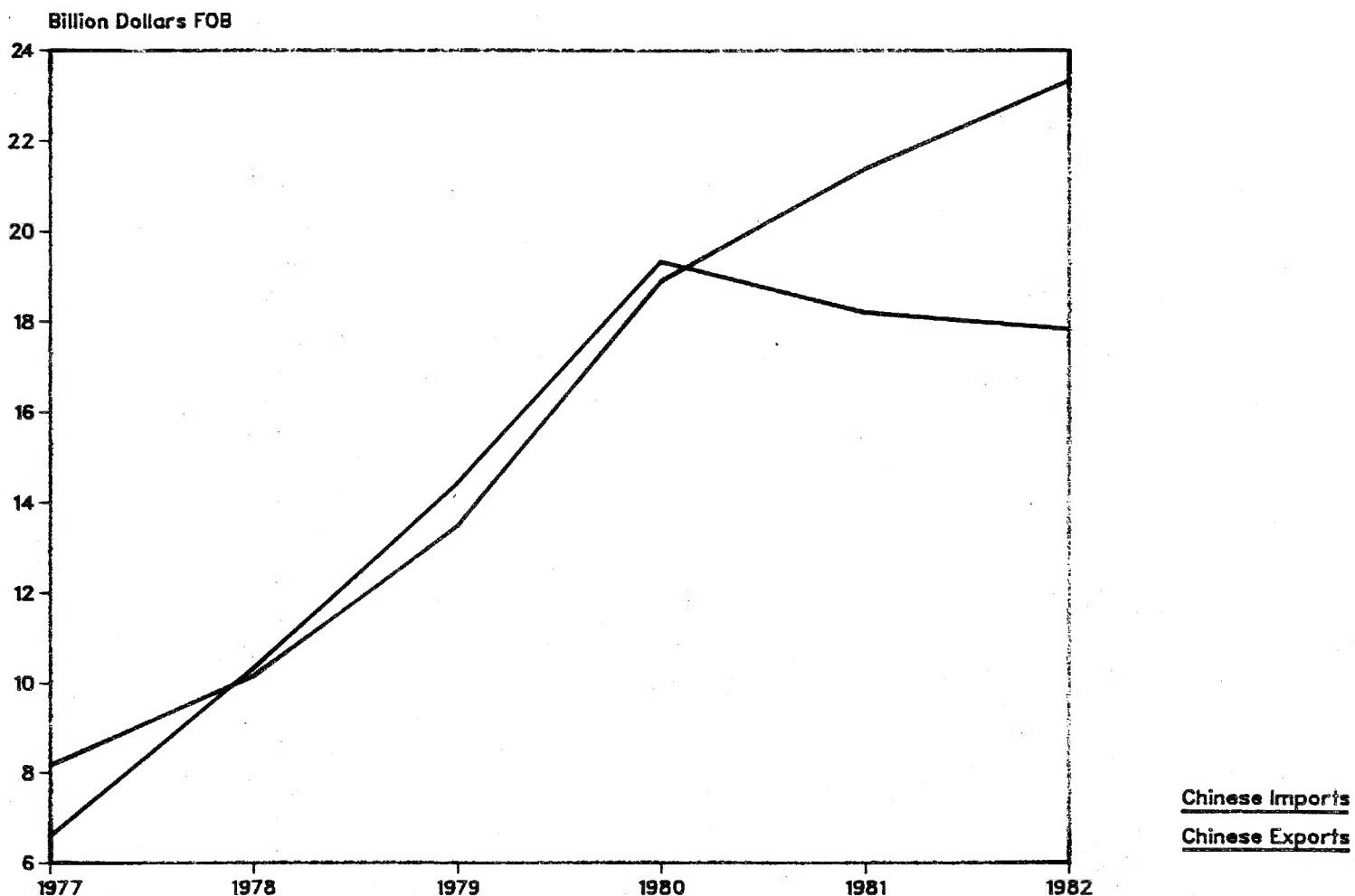
Chinese Agricultural Production



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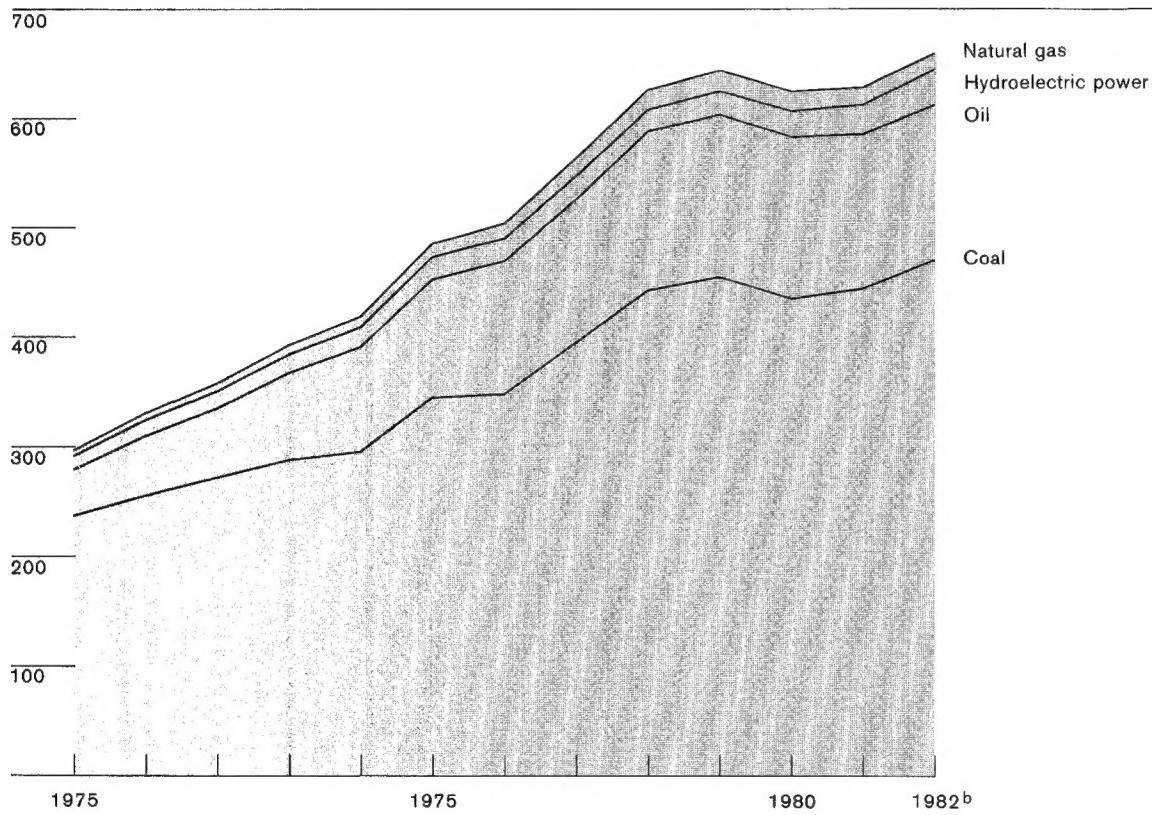
Chinese Foreign Trade



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China: Primary Energy Production, 1970-1982

Million tons of standard coal equivalent^a



^a Based on coal yielding 7,000 kilocalories per kilogram.

^b Projected figures.

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